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December 14, 2012

VIA ELECTRONIC FILING

Jocelyn Boyd, Esquire
Chief Clerk and Administrator
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, SC 29210

RE: Application of Tega Cay Water Service, Inc. for Adjustment of Rates and Charges and
Modifications of Certain Terms and Conditions for the Provision of Water and Sewer
Service
Docket No. 2012-177-WS

Dear Ms. Boyd:

Enclosed please find for filing the following Rebuttal Testimony in the above-referenced docket:

1. Rebuttal Testimony of Dylan D'Ascendis;
2. Rebuttal Testimony of Kirsten Maxwell with Exhibits.

By copy of this letter, I am serving all parties of record.

If you have any questions or if I may provide you with any additional information, please do not
hesitate to contact me.

Sincerely,

Elliott & Elliott, P.A.

Scott Elliott

SE/mjl

Enclosures

cc: All parties of record w/enc.

BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

PREPARED REBUTTAL TESTIMONY

OF

DYLAN W. D'ASCENDIS, CRRA
ASSOCIATE
AUS CONSULTANTS

ON BEHALF OF

TEGA CAY WATER SERVICE, INC.

DECEMBER 14, 2012

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1 **Introduction**

2 **Q. Please state your name, occupation and business address.**

3 A. My name is Dylan W. D'Ascendis and I am an Associate of AUS Consultants.
4 My business address is 155 Gaither Drive, Suite A, Mt. Laurel, New Jersey
5 08054.

6 **Q. Are you the same Dylan W. D'Ascendis who previously submitted prepared**
7 **direct testimony in this proceeding?**

8 A. Yes, I am.

9 **Purpose**

10 **Q. What is the purpose of this testimony?**

11 A. The purpose of this testimony is to rebut certain aspects of the direct testimony
12 of Douglas H. Carlisle, witness for the Office of the Regulatory Staff ("ORS").
13 Specifically, I will address his opinion regarding the ratemaking long-term debt
14 cost rate for Tega Cay Water Service, Inc. ("Tega Cay" or "the Company").

15 **Long-Term Debt Cost Rate**

16 **Q. Do you agree with Dr. Carlisle's assumption on page 11, lines 22 through**
17 **24 that "Under these circumstances, companies have the ability to obtain**
18 **cheap debt and lower their interest payments."?**

19 A. No, I do not. The Memorandum of Closing Documents for Utilities, Inc.'s (also
20 referred to as "the Parent") Series 2006-A Collateral Trust Notes were provided
21 to ORS in discovery. The prepayment section of the closing documents explains
22 that the cost of prepaying Utilities, Inc.'s long-term debt would include the \$180M
23 and the present value of all future payments. This make-whole payment would

1 cost \$83.1M as of February 2012. In order to prepay the note, Utilities, Inc.
2 would have to raise around \$260M in capital to replace the \$180M note not
3 including the additional closing costs associated with the new issue.

4 **Q. What would be the repercussions of raising \$260M in debt to refinance UI's**
5 **Collateral Trust Notes?**

6 A. If that \$260M were raised entirely by debt, it would increase Utilities, Inc.'s
7 50.75% debt ratio to 59.33%. The resulting increased financial risk would
8 degrade Utilities, Inc.'s credit quality, which means that Utilities, Inc. would not be
9 able to enjoy the lower interest rates referenced by Dr. Carlisle. Also, in order to
10 maintain or lower its current interest costs, a coupon rate on the \$260M would
11 need to be 4.6% or below, which would be unlikely given the higher debt ratio
12 and lower credit quality. This higher interest cost would be passed on to
13 ratepayers, raising their rates. It would also increase the investors' required
14 return on common equity for Utilities, Inc.'s regulated subsidiaries, like Tega Cay,
15 due to the increased financial risk. In view of the above, it is not as simple as Dr.
16 Carlisle would have us believe to refinance an existing note to take advantage of
17 a lower interest rate environment.

18 **Q. Dr. Carlisle mentioned a number of companies as examples that enjoy**
19 **lower debt cost rates in recent issuances than Tega Cay's embedded long-**
20 **term debt cost rate. Do you have any comment?**

21 A. Yes. Dr. Carlisle is confused between marginal and embedded long-term cost
22 rates. Marginal cost rates are the rates that a company would receive in the spot
23 market, while embedded cost rates are the weighted average rates of all of the

1 debt capital currently outstanding on a company's balance sheet. The recent
2 issuances of medium-term notes by Duke Energy and the short-term revolving
3 credit agreement by South Carolina Electric & Gas are lower than Tega Cay's
4 proposed embedded long-term debt cost rate as it is the weighted average of all
5 financing decisions made by the Company that are still on the their books which
6 must be recovered for ratemaking purposes.

7 **Q. Dr. Carlisle also mentioned the actual embedded long-term debt cost rates**
8 **of two water companies. Do you have any comment?**

9 A. Yes. The two companies mentioned, Arizona-American Water Company and
10 York Water Company are uniquely financed, just as Tega Cay is uniquely
11 financed. No two companies are going to be financed in exactly the same
12 manner due to the timing of equity issuances / infusions and debt issuances.
13 When Utilities, Inc.'s debt issuance closed in July 2006, Baa public utility bonds
14 averaged 6.61%, which makes Utilities, Inc.'s debt issuance prudent at the time
15 of the issue. Since the decision to issue the bond was prudent at the time of
16 closing and refinancing the debt at this time would harm ratepayers and the
17 Company, the Commission should allow Tega Cay to recover the full cost of its
18 current debt for ratemaking purposes.

19 **Q. Does that conclude your rebuttal testimony?**

20 A. Yes.

CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that she has served below listed parties with a copy of the pleading(s) indicated below via email a copy of same to on the date indicated below:

RE: Application of Tega Cay Water Service, Inc. for
Adjustment of Rates and Charges and Modifications to
Certain Terms and Conditions for the Provision of Water
and Sewer Service

Docket No. 2012-177-WS

PARTIES SERVED:

VIA EMAIL

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Shannon B. Hudson, Esquire
Office of Regulatory Staff
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PLEADING:

Rebuttal Testimony of Dylan W. D'Ascendis
Rebuttal Testimony of Kirsten Maxwell with Exhibits

December 14, 2012



MaryJo Lawracy Legal Assistant